

The Role of Excise Taxes in Revenue Generation in Ghana

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Seth E. Terkper
International Monetary Fund
formerly with Ministry of Finance, Ghana
(National Revenue Secretariat and VAT Project/Service)

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Belfer Center for Science & International Affairs
John F. Kennedy School of Government, Harvard University

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Abstract

Since 1991, excise tax revenue in Ghana has averaged about 4% of GDP, or about twice the level found in Sub-Saharan Africa. The paper documents the evolution of excise taxes over the past two decades, and discusses the structure of rates and the methods of administration. Of particular note is the important contribution of excise tax on petroleum, particularly gasoline. Contrary to popular perceptions, this tax is progressive, in that it falls relatively more heavily on better-off households. The scope for increasing revenue from changes in excise taxes is very small, but the need for the revenue will remain strong until the recently re-introduced VAT lives up to its potential.

Author:

Seth Terkper [sterkper@imf.org] is currently a headquarters-based consultant with the International Monetary Fund (IMF), Washington D.C. Prior to joining the Fund in 1999, he worked with the Ministry of Finance, Ghana on major tax reform programs and was the national coordinator for the value added tax (VAT) introduced in 1999. He has published a series of articles in *Tax Notes International* on Ghanaian tax policy and administration. In 1991, he completed the joint Kennedy School of Government and International Tax Program (Law School) masters degree program at Harvard University. While working in Ghana, he served on a periodic basis as a consultant on tax matters for the Harvard Institute for International Development (HIID), African Development Bank (AfDB) and International Monetary Fund (IMF).

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INTRODUCTION

Ghana is widely perceived to be among the front-runners in economic and tax reforms in Sub-Saharan Africa (SSA). The most recent tax reforms were launched in 1985, approximately two years after the general structural adjustment program for the whole economy was introduced. It has been observed that the improvements in tax collection during the first decade of this initiative made it possible for the government to increase expenditure to vulnerable and socially sensitive sectors – rather than initiate across-the-board cuts - during the whole period leading up to the early 1990s (Kapur 1991).

This improvement has been attributed to a combination of tax policy changes, improvements in tax administration and enforcement, the expansion of the tax base brought about by economic growth, and changes in relative prices, particularly the exchange rate. It is important to note in the context of this study that excises – notably petroleum excises - were very significant in this tax recovery effort. For the five years preceding the introduction of petroleum excises in 1986, excises contributed on average only 1.7 percent of GDP.¹ At the peak of the reforms in 1991, the excises on petroleum and non-petroleum products had increased to 4.21 percent of GDP or 28 percent of total revenue, including non-tax revenue (Terkper 1994).

This comparative study of excise taxation in Ghana is limited in scope but lends insight into major trends in revenue performance and policy changes during the tax reform period. It also has the objective of analyzing the policies with a view to enhancing the efficiency and increasing the share of excise taxes in the country. The study is a component of the Equity and Growth through Economic Research in Africa (EAGER) and the Public Strategies for Growth (PSG) research on ***“Tax Policy in Sub-Saharan Africa: Re-Examining the Role of Excise Taxation”*** (Bolnick and Haughton 1998). The principal studies are targeted for Tanzania and Madagascar, with comparative studies being conducted in Ghana, Kenya and Zambia.

The comparative study in Ghana allows one to evaluate the relevance of five propositions that were set out in the background paper to the study.

- a) ***Revenue from excise taxes could, and should, be doubled in most African countries.***
The conviction in this regard is that excises could mobilize about 4 percent of GDP in most African countries. It is contended that, even at this level of performance, the revenue from excise duty in SSA countries would still be lower than the 5 percent current average in some OECD countries. Though Ghana reached this peak in 1991, the ratio continues to fluctuate and has often slipped below the 4 percent yardstick. It is also important to emphasize that petroleum excise alone – in the form of windfall profits tax of a state monopoly – accounts for more than half of this performance.
- b) ***There is considerable scope for efficiency-enhancing changes in the structure of excise taxes.*** The proposal points out that most excise regimes appear to be poorly designed because of the tendency to apply them as *ad hoc* measures to solve critical shortfalls in revenue. Hence, the study calls for a comprehensive approach that will link the design of excise regimes meant to increase revenue to the way they are used in tackling specific

problems caused by negative externalities (e.g. tobacco, petroleum and alcohol), and/or the application of the benefit principle (e.g. vehicle and fuel taxes). It states further that for countries that already generate high levels of revenue as a percentage of GDP (e.g. 28 percent in Kenya), the design should aim at using excises to replace distortionary trade tax regimes.

To a large extent, both observations apply to the Ghanaian situation. First, the windfall tax in the form of petroleum excises was convenient in sealing the loss in revenue experienced due to declining income taxes and export duty. Moreover, the diversification of the excise and general consumption tax bases are necessary in a situation where trade taxes have consistently generated a large share of the total revenue and the rates applicable to tariffs in particular are considered to be too high. It is firmly stated in the research proposals that changes to this type of tax structure could reduce economic distortions, enhance efficiency and promote growth.

- c) ***The best means of achieving most of these objectives is to confine the coverage of excises to the traditional excisable products and a limited number of luxury items.*** Much of the distortion in the design of excise duty can be traced to the indiscriminate application of excise duty to a wide range of goods. In Ghana, though the law on customs and excises states that excises shall be imposed on all manufactured goods, the system has been rationalized since 1986.² The regime covers imports as well as domestic production and is currently restricted to only the traditional products such as petroleum, tobacco, alcoholic and non-alcoholic beverages. However, the neutrality and efficiency of the regime is adversely affected by the high incidence of smuggling, which renders the excise on imports to be negligible and of virtually no revenue significance. The restriction of the excise base is meant to simplify administration and preserve the integrity of excise systems on the continent.
- d) ***It is also proposed that excise tax administration could be substantially improved by codifying and disseminating current “best practices” within Sub-Saharan Africa.*** This suggestion revolves around the exchange of information on best practices among African tax administrators and policymakers. The review of administration is to include the structure of excise management and a description of operational procedures in different countries. The traditional view that all excises should be administered by the customs authorities should be reassessed in the context of the creation of Revenue Boards and the consolidation of the administration of domestic indirect taxes, notably the general consumption value added tax (VAT).
- e) ***Finally, it is envisaged that the increased reliance on excise taxes will be consistent with fashioning an equitable tax system on the continent.*** The proposals concede that it is often difficult to defend the use of excises on pure equity grounds. It is argued that for the economies that are dominated by a large informal sector, excise and other indirect taxes may not always be regressive. This is because the imposition of income taxes in particular is virtually non-existent in these sectors. In the case of motor vehicles, for example, the imposition of excise taxes could actually be progressive. Luckily, Ghana is

probably among the few countries in SSA where a *relatively* more detailed study of the incidence of taxes, including aspects of this study, have been conducted. Consequently, the relevance of the conclusions reached by Younger will be cited in this study (Younger 1993).

Ghana's reliance on excise duty to generate revenue and pursue other fiscal goals dates back many years but the system was only properly restructured in the 1980s. Currently, excises are levied on virtually all the commodities earmarked for the study (alcoholic and non-alcoholic beverages, tobacco and petroleum products). The only obvious exception is excise on motor cars and vehicles. Indeed, the taxation of alcohol and tobacco under the restructured excise regime spans the whole period of the study - 1970 to 1995. In spite of the changes made to the tax structure during the 1980s and the obvious increase in revenue, other benefits of tax reform in the form of an expanded and diversified tax base have not fully materialized. For example, it was anticipated that the objectives of the various tax instruments would by now have been more refined to promote better understanding of the role of excises and other special taxes as opposed to broad-based taxes such as the VAT. Though this comparative study makes a contribution to the issues at stake, a comprehensive discussion of the impact of tax reforms in Ghana goes beyond the scope of this paper.³

Part 2 deals with the relative importance of excise taxes in Ghana. It compares the revenue performance of excises against the other major sources of revenue in the country over the period of the study. Part 3 looks at excise policy in Ghana and the changes which have been introduced to date to make the system more efficient and equitable. In addition to discussing the specific changes in policy, it reviews the rationale for levying individual excise taxes and the trends in the performance of these taxes. The administration of excises is also included in this part. Finally, the paper concludes with some non-revenue views on excise taxation and recommendations for change in some of the positions discussed in the paper.

RELATIVE IMPORTANCE OF EXCISE TAXES

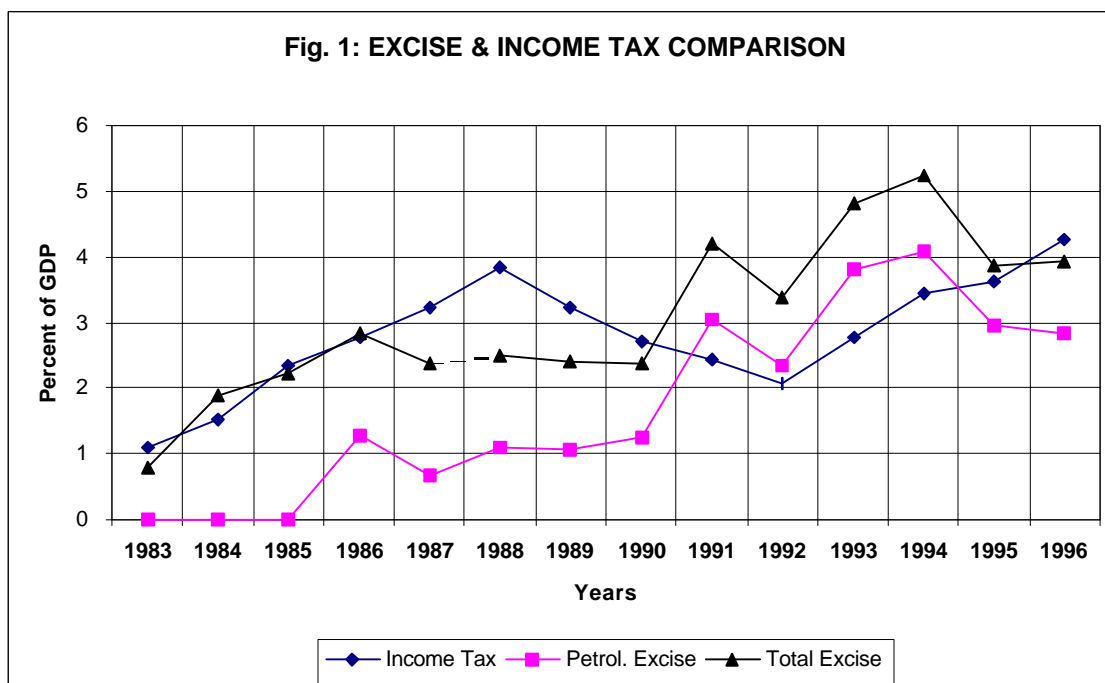
The potential of Ghana's tax system in terms of revenue performance and a better spread of the sources from which revenue is generated are yet to be fully realized. For many years, the country's revenue effort lagged behind even the Sub-Saharan African average. After the recovery attributed to the tax reforms initiated during the 1980s, the tax/GDP ratio rose to only 12.8 percent in 1993 compared with an average of 17.7 percent for Sub-Saharan Africa (Shome 1995). As Annex 1 shows, recent increases in export and import duties have raised the ratio above 15 percent but the distortionary nature of these two taxes lends weight to the need to further reform the tax structure. This relatively low tax effort has never been attributed to a conscious policy of keeping the burden of taxation low. Therefore, the low tax collection effort can be attributed to weaknesses that persist in the tax structure and its administration. This section reviews the relative importance of the major taxes and also provides the context in which excises are discussed in other sections.

Taxes on Income and Property

Taxes on income and property in Ghana are principally derived from personal and corporate income taxes. The *personal income tax (PIT)* is a progressive regime covering employees, sole proprietorships and partnerships. Entrepreneurs in this category are required to add profits earned to wages and other income in computing their taxable income. A number of final withholding taxes and separate regimes incorporated into the structure make the system *schedular* rather than global. The PIT generated only an average of 0.93 percent of GDP between 1990 to 1995, with the self-employed taxpayers generating less than 0.5 percent of GDP. Annex 1 shows that the total revenue from non-petroleum excises alone has consistently exceeded that from PIT for the whole period spanning 1980 to 1996. This is also true of petroleum excise from 1988 onwards.

Table 1
Excise & Income Tax (% of GDP)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Income Tax	1.10	1.52	2.33	2.76	3.23	3.85	3.24	2.71	2.43	2.07	2.76	3.44	3.63	4.26
Total Excise	0.79	1.89	2.21	2.83	2.39	2.51	2.41	2.38	4.21	3.37	4.80	5.24	3.88	3.93
of which:														
Non-Petr. Exc.	0.79	1.89	2.21	1.53	1.72	1.42	1.35	1.13	1.15	1.03	0.99	1.16	0.92	1.10
Petrol. Exc.	0.00	0.00	0.00	1.29	0.67	1.09	1.06	1.25	3.06	2.34	3.80	4.07	2.96	2.82



The *corporate income tax (CIT)* is currently imposed at a uniform rate of 35 percent on taxable income, except where specific incentives apply under the income tax decree and the investment promotion act.⁴ Its proportion to GDP is about 1.61 percent, lower than the excise from non-petroleum excises prior to 1986 before the trend changed. Indeed, Table 1 and Fig. 1 show that the revenue from petroleum excises alone as a percentage of GDP exceeded the combined

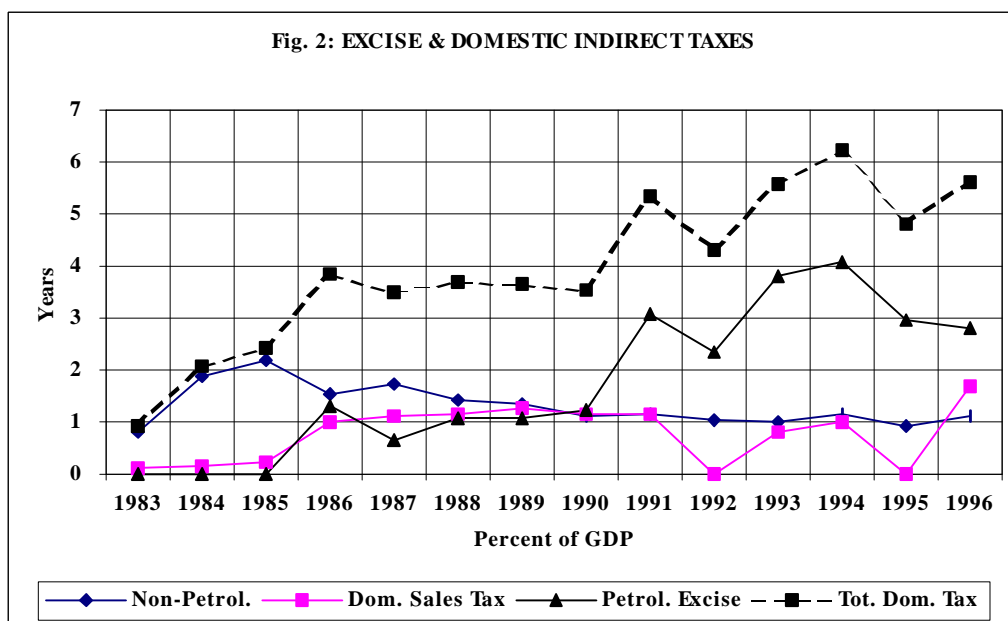
revenue from direct tax on income and property between 1991 and 1994. The general efficiency of the PIT and CIT regimes is affected by many exemptions, final-cum-partial withholding tax schemes and fiscal concessions granted under the income tax and investment promotion laws. Also, *dividends* paid by corporate bodies are taxed at a final withholding rate of 10 percent. This is a compromise between the classical approach used prior to the tax reforms and full integration. Similarly, the final tax of 5 percent on realized *capital gains* is meant to minimize the impact of the tax on nominal appreciation of assets due to inflation.

Domestic Indirect Taxes

The *domestic indirect tax (DIT)* regime comprises excise duty and general sales taxes. A remarkable aspect of the DIT regime is that the excise tax system appears to be better structured and therefore more efficient than the general consumption taxes. To date, the latter taxes are collected under different sales and service tax systems after the attempt to introduce the Value Added Tax (VAT) was aborted in 1995 (Terkper 1997). Also, the relatively narrow base and numerous exemptions on basic goods and services tend to adversely affect the general consumption tax regime. For example, the sales tax is imposed only on goods at the manufacturing and import stages. The service tax system used to cover only four (4) services (advertising, hotel and restaurant meals, entertainment, gaming and betting) but it was recently expanded to cover fifteen (15) additional professional services.⁵ Finally, the efficiency of the domestic indirect tax regime is seriously hampered by a dichotomy in administration resulting in CEPS (Customs, Excise and Preventive Service) administering the sales tax, whereas the service taxes are placed under the IRS (Internal Revenue Service).

Table 2
Taxes on Domestic. Goods as % of GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Non-Petrol Exc	0.79	1.89	2.21	1.53	1.72	1.42	1.35	1.13	1.15	1.03	0.99	1.16	0.92	1.10
Sales Tax	0.12	0.16	0.23	1.01	1.12	1.17	1.26	1.15	1.15	0.92	0.79	1.01	0.92	1.69
Petrol. Excise	0.00	0.00	0.00	1.29	0.67	1.09	1.06	1.25	3.06	2.34	3.80	4.07	2.96	2.82
Total	0.91	2.06	2.44	3.84	3.51	3.68	3.67	3.53	5.35	4.29	5.58	6.24	4.80	5.62



The *domestic sales tax* to GDP ratio at slightly less than 1% has remained below the contribution from non-petroleum excise up to 1994. However, Table 2 and Fig. 2 show that the impact of the aborted VAT in 1995 did reverse the trend for that year and 1996. The revenue from petroleum excise exceeded the domestic sales tax revenue in the year it was introduced in 1986 but fell below it up to 1990. This trend remained unchanged, with the gap actually widening until 1995. *Excises* are applied on alcoholic and non-alcoholic beverages, tobacco and petroleum products that are either produced locally or imported. It is, however, important to observe that there are a number of luxury rates under the tariff regime that can appropriately be described as quasi or discriminatory excises. These include special import duties on specified commodities and, until its abolition in 1996, the purchase tax on the importation of vehicles.⁶

The total share of excises to GDP has risen steadily in the past due to the rapid increases in the revenue generated by petroleum excises. As Annex 1 clearly shows, total excises generated an average of 3.97 percent of GDP between 1990 and 1995. Further discussion of details of the excise regime and the trends in its performance is deferred until later in the paper.

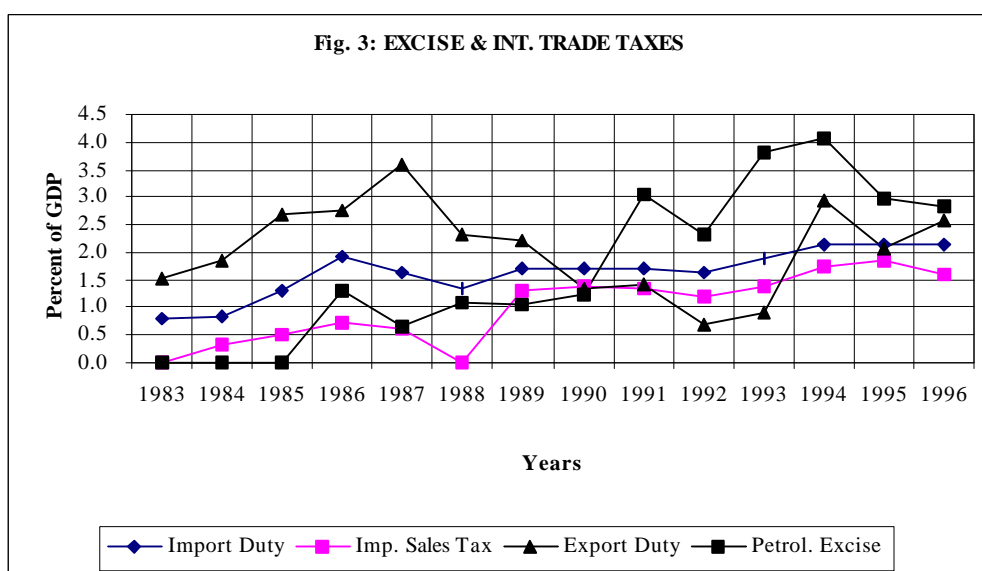
Taxes on International Trade

Ghana relies on *international trade taxes* to generate revenue of about 5 percent of GDP. This re-emphasizes the relative importance of trade and tariff taxes among SSA countries. The trade tax regime includes import tariffs, sales tax, special taxes (including import excise and purchase tax) and duty on the exports of cocoa beans. The export duty exceeded the *total* revenue from tariffs and import sales tax until 1989. The trend was reversed as a result of the conscious effort made to motivate cocoa farmers by reducing the export duty, and also by the general decline in the world market price of the product. This is a significant development, considering that there was no excise duty on petroleum prior to 1985.

Indeed, Ghana's *export duty* on cocoa is clearly anachronistic. Its elimination is hampered by lack of viable alternatives to replace the revenue loss that might arise rather than by any conscious policy to use it as a proxy for improving the income tax system or as a windfall tax. At 5.08 percent of GDP in 1979, the duty on cocoa was the most significant single-commodity revenue earner in the 1970s. It persisted – at lower ratios - until petroleum replaced cocoa as the main source of taxation for the first time at 3.06 percent of GDP in 1991 (Table 3).

Table 3
Excise and International Trade Taxes as % of GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Import Duty	0.97	0.83	1.31	1.91	1.63	1.36	1.71	1.70	1.69	1.65	1.89	2.14	2.14	2.15
Sales Tax	0.00	0.31	0.50	0.72	0.62	0.91	1.31	1.37	1.35	1.20	1.39	1.75	1.85	1.58
Export Duty	1.52	1.84	2.67	2.77	3.60	2.33	2.22	1.34	1.40	0.68	0.91	2.95	2.07	2.59
<i>Memo item:</i>														
Petrol. Excise	0.00	0.00	0.00	1.29	0.67	1.09	1.06	1.25	3.06	2.34	3.80	4.07	2.96	2.82



Tariffs – import duty and special taxes on imports - are levied on all non-exempt goods imported into the country at variable rates. There are a large number of exemptions, but as Table 3 and Figure 3 suggest, they remain a stable source of revenue at virtually the same level as the excise from non-petroleum products. They serve a revenue as well as protective function in the economy. The import regime imposes sales tax on a neutral basis as the domestic equivalent but generates a lesser amount than the revenue derived from tariffs and domestic excise duties.

Import excises were introduced in 1989 as an equalizing tax on imported excisable commodities but under the special import tax regime. It is not described as excise probably because the definition in the CEPS Management Law restricts excises to locally manufactured goods. It should be observed that this anomaly could also hamper the imposition of excises on services should the need arise (e.g. the use of mobile phones). Currently, the contribution of *import excises* to revenue is insignificant, rarely reflecting in importance in any major statistics. This may be attributed to the fairly strong demand for the local excisable products like beer, the state

monopoly over the importation of crude oil for refining petroleum products locally, and porous border controls that result in massive smuggling of excisable products such as cigarettes, alcoholic and non-alcoholic beverages.

EXCISE TAXATION IN GHANA

The Customs, Excise and Preventive Service (CEPS) administers excise duties. Currently, the taxes are collected under the Customs, Excise and Preventive Service (Management) Law, 1993 (PNDC Law 330). In theory, the tax is supposed to be collected at a neutral rate on both imports and domestic supplies of similar goods. The service tax regime administered by IRS (Internal Revenue Service) is yet to be comprehensive in every material particular and therefore does not have an excise tax element. This part of the study deals with the objectives of excise taxation in Ghana, the operational features of the regime, trends in excise reform and the administration of the tax. It draws on conclusions from the various statistics compiled from domestic sources, evidence gathered from field interviews and some literature review.

Objectives of Ghana's Excise Duties

The major re-structuring of excise taxes in Ghana took place in the 1970's under the Customs and Excise Decree, 1972 (NRCD 114). Currently, the regime serves a number of fiscal goals in the management of the economy. The second major review of the excise regime between 1985 and 1986 was heavily influenced by the thinking of the multilateral institutions such as the IMF and World Bank and tax experts who worked on the country's tax and other economic reforms in the 1980s. Thus, it can be argued that the current structure incorporates some of the elements in the current literature for designing an effective excise tax system (Janet Stotsky, Shome 1995).

The Revenue Objective

Excise taxes contributed a fairly large proportion of total revenue even prior to 1986 when no excise duty was collected on petroleum products. As Annex 2 shows, the revenue from the original *non-petroleum excise*, levied mainly on alcohol and tobacco, reached a peak in 1981 when it generated 33.4 percent of total revenue. It averaged 24 percent of total revenue between 1980 and 1985 but exceeded 2 percent of GDP only in 1985 for the same period. As Table 4 and Figure 4 show, *petroleum excises* began with a modest contribution of 9 percent of total revenue in 1986 but then peaked at 22.3 percent in 1993. As noted already, this particular tax has outstripped the excise duty from the non-petroleum products and the export duty on cocoa as the single most important revenue earner since 1991.

Table 4
Excise Trends (as % of total revenue)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Non-Petrol	14.18	22.62	18.82	10.66	11.53	9.68	8.92	8.57	7.57	8.45	5.84	4.53	3.92	5.51
Petrol	0.00	0.00	0.00	8.96	4.50	7.45	7.02	9.50	20.17	19.20	22.30	15.87	12.55	14.10
Total Exc.	14.18	22.62	18.82	19.62	16.03	17.13	15.95	18.07	27.73	27.65	28.14	20.40	16.47	19.60

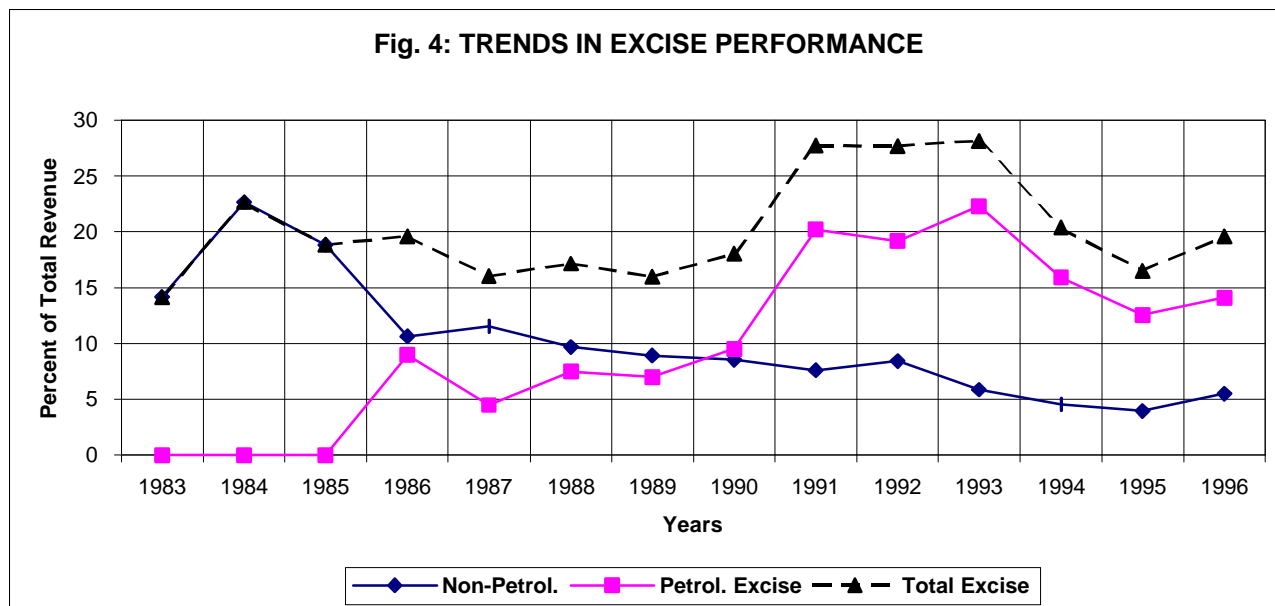
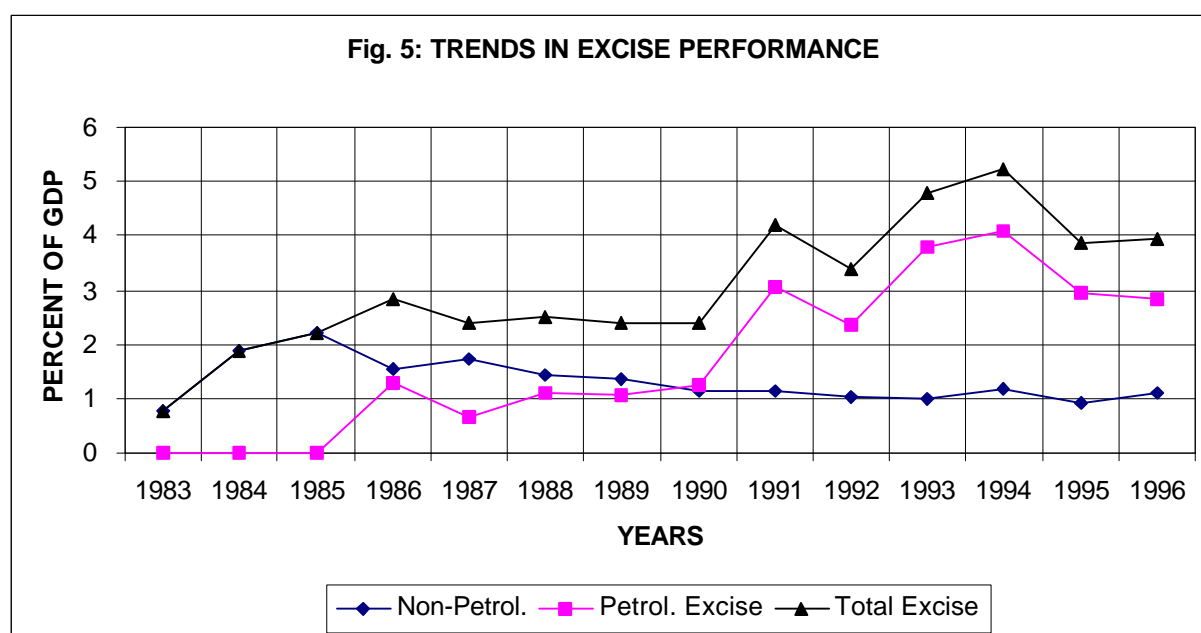


Table 5 and Fig. 5 show that the share of the non-petroleum excise duties to GDP fell below 1 percent of GDP between 1981 and 1983 but has since recovered, with the exception of 1992 when the ratio fell to 0.92 percent. It is, however, significant to observe that this category of excise duties has never exceeded 2 percent of GDP during the nearly three decades of its imposition. It is possible for this target to be exceeded provided the tax administration can control the trade in contraband local production, and the smuggling of excisable products imported into the country. In 1994, the revenue from petroleum and non-petroleum excise duties taken together exceeded 5 percent of GDP for the first time. This was also the year in which the tax on petroleum products alone reached a peak of 4.07 percent of GDP.

Table 5**Excise Trends (as % of GDP)**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Non-Petrol	0.79	1.89	2.21	1.53	1.72	1.42	1.35	1.13	1.15	1.03	0.99	1.16	0.92	1.10
Petrol	0.00	0.00	0.00	1.29	0.67	1.09	1.06	1.25	3.06	2.34	3.80	4.07	2.96	2.82
<i>Memo item:</i>														
Total Exc.	0.79	1.89	2.21	2.83	2.39	2.51	2.41	2.38	4.21	3.37	4.80	5.24	3.88	3.93



The levels of revenue performance indicated above appear to show different levels of performance of Ghana's excise over different periods. The country's average ratio was 1.9 percent of GDP compared with 1.7 percent for the SSA region between 1975 to 1980; 1.6 per-cent compared with 1.7 percent between 1981 to 1985; and 2.7 percent compared with 1.9 percent between 1986 and 1992 (Shome 1995). For these periods, the average ratios for SSA and Ghana all fell below the target of 4 percent envisaged by the study. This trend was however reversed between 1991 and 1996 when excise duty in Ghana averaged 4.24 percent of GDP. This reversal is attributable to petroleum excise, which averaged 3.18 percent for the same period. This means that the source from which excise duties are generated is still not well diversified - another basic requirement of this particular study. The petroleum excise tax is unpopular in Ghana, making it doubtful whether this ratio can be sustained without major modifications being made to the present structure of the excise regime. Moreover, the over-reliance of the tax on such a single source appear to make the regime vulnerable to any adverse trends that might be recorded in the international market price of the product.

Efficiency of the Excise Regime

Currently, the base of Ghana's excise regime is restricted to the traditionally accepted excisable products, namely, petroleum, tobacco, alcoholic and non-alcoholic beverages. Similarly, the

special or quasi-excise regimes are restricted to luxury rates imposed as additional tariffs or import duty on sumptuary imports. Therefore, the core of the excise regime can be considered to be fairly efficient in terms of its narrow coverage of commodities where demand is deemed to be price inelastic, or to correct for negative externalities. However, the neutrality of the excise rates is generally affected by the difficulty in collecting the equivalent tax on imports. This defect in the tax structure is reversed by the difficulty of collecting an equivalent of the luxury taxes on domestic goods. This is a serious policy issue though very few of the products affected by luxury rates are produced locally. In addition, the luxury taxes contribute very little to the revenue effort and so have not always been seriously assessed in most policy reviews of the tax system.

Consequently, as Table 6 and Annex 3 depict, the rate of tax on these commodities compared with the sales tax and tariff regimes in the country are relatively high (by Sub-Saharan African standards at least). These rates appear to confirm their conscious use as proxy rates to correct negative externalities or as user charges in line with the benefit principle. This is evident from the fact that the rates of excise taxes on non-alcoholic beverages are relatively lower than the rates on petroleum products, alcoholic drinks and tobacco. Hence, excise taxes on the non-alcoholic beverages appear to perform a revenue rather than punitive function in the strict traditional sense in which these taxes are imposed.

Table 6
Import/Domestic Excise Tax Rates

Commodity/Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Tobacco	67.2	205.0	200.0	170.7	170.7	170.7	170.7	170.7	170.7	170.7
Beer	49.0	85.8	80.8	75.8	75.8	75.8	75.8	75.8	75.8	75.8
Non-Alcoholic				50.4	50.4	50.4	50.4	50.4	50.4	50.4
Guinness				60.5	75.8	75.8	75.8	75.8	75.8	75.8
Spirits				25.0	25.0	25.0	25.0	25.0	25.0	25.0
Malt (Non-alcoholic)				25.0	10.0	10.0	10.0	10.0	10.0	10.0

Notes::

1. Until 1989, no excise duty was levied on imports
2. The calculation of domestic sales/excise based on pre-tax ex-factory price since 1989

Annex 4 suggests that price increases due to inflation and the depreciation of the local currency, the *cedi*, coupled with the automatic adjustment of the excise duty to an *ad valorem* base since 1989, did not appear to affect significantly the level of domestic deliveries of excisable products. On the contrary, consumption of some of the known brands has fluctuated, often increasing when prices have gone up. It is important to observe at this stage that excise rates have not changed for over five years in Ghana. The changes in prices recorded in Annex 5 are therefore attributable to the adjustments made to the cost of production by firms and importers. However, this analysis of the effect of prices on quantities is inconclusive since the impact of the import trade on demand and supply is difficult to assess. It may therefore be prudent not to place any serious reliance on it.

There appears to be general acceptance that the relatively high rates of tax on tobacco and alcohol are imposed to rein in the externalities associated with the consumption of these commodities. Hence the reluctance on the part of the authorities to reduce the relatively high rates on tobacco

and beer has not met with the same level of public discontent as the tax levied on petroleum products. It is remarkable that the general public does not associate the petroleum tax with the excesses caused by the transport sector in the economy. This is because of the dramatic impact the petroleum excises had on transportation fares at the time they were introduced.

Until 1989, the excise regime in Ghana appeared to negatively protect local industries. As noted previously, there was no explicit policy of imposing equivalent rates of duty on the importation of excisable products. It was observed that this could be attributed to the legal definition of an excise duty as a levy on only locally manufactured goods. Hence, the regime relied on luxury rates of import duty to improve the neutrality of the excise regime. However, the luxury regimes were general in nature and bore no direct relationship with the domestic excise tax regime. Moreover, the relatively high rates of import, sales and excise tax encourages widespread evasion through smuggling of excisable products across the country's land borders. These characteristics of the excise regime persist even after many years of fiscal reforms.

Therefore, whilst the public may be willing to accept the high rates of excise tax on the domestic product, the smuggling of import equivalents heavily affects the neutrality of the tax and tends to negatively protect local industries. Finally, the petroleum excise is inefficient because it is potentially a *cascading* tax. Unlike the taxation of alcohol and tobacco depicted in Annex 3, the consumption tax element of the petroleum tax is not distinguished in the form of the deferral of tax as it is under the sales tax regime.

Equity of the Excise Regime

There are many traditional premises on which the equity of the excise regime in Ghana can be assessed. First, the general perception is that consumption of the core excisable products – petroleum, alcohol and tobacco - appears to cut across all income groups and social classes in Ghana. In this context, the excise taxes are generally regarded to be regressive in relation to the earning capacity of low-income earners. In particular, there is widespread acceptance of the view that the impact of the petroleum excise duty is felt by many poor people because of its direct effect on transport fares, the cost of transporting business inputs and its price effect on basic agricultural produce put on the markets. The tendency to raise these prices immediately after every annual budget often lends credence to this view.

The income tax regime in Ghana falls predominantly on the formal sector of the economy. In this regard, the relatively high excise and other luxury tax regimes appear to support the observation by Richard Goode (1984) that selective taxes on luxury consumption are often more effective in reaching high-income earners in the informal sector than the poorly enforced income tax regime. Finally, it is important to stress that the rationalization of the goals of the individual tax instruments has been at the center of the tax reforms carried out in Ghana. In this regard, the structure of other taxes such as the PIT and indirect luxury tax rates, should be seen as complementing the fairness of the excise tax system. The excise regime is not necessarily designed to differentiate the impact of the tax on different classes of consumers of excisable products.

As noted previously, the incidence of the petroleum excise tax in Ghana is probably the most controversial tax topic apart from the attempt made at introducing VAT in 1995. Kapur (1991) and other studies conclude from the Ghana Living Standards Survey (GLSS) - see Table 7 - that the poor in Ghana in particular purchase almost no gasoline and actually spend a smaller proportion of income on public transportation. This implies that the perceived adverse impact of the steep petroleum excise tax on vulnerable groups was likely to be minimal. A similar conclusion was reached about the probable effect of indirect taxes on the amount of income spent on food, since most poor households in rural Ghana consume home-produced – rather than marketed - food.

These conclusions are corroborated by Younger (1993) who indicated that most of the consumption of petroleum products is done by firms rather than households. The tax on kerosene (lighting fuel) has, however, been an exception to this rule since all major studies have found it to be regressive. The absence of an input-output table for Ghana makes it difficult to assess the indirect incidence of the tax on households. Younger, however, uses a co-efficient derived from the input-output tables for Niger, Cameroon and Madagascar to adjust for transportation services and suggests that the tax from gasoline could actually be very progressive (Younger 1993).

The findings of the incidence of excise taxes on most non-petroleum products is thought to be most suspect in the Younger review. The flaws reported include possible under-reporting of the level of consumption of alcohol and tobacco and the lumping together of taxable and non-taxable brands of closely-related commodities by households (e.g. beer, the locally-brewed *akpeteshie* liquor and tobacco). Therefore, Younger concludes that the implication from the GLSS study that the incidence of the alcohol and tobacco taxes appear less progressive could be unconvincing.

Table 7
Expenditure Patterns by Poverty Groups (% of total expenditure)

Category	Non-poor	Poor
Expenditure on Food	43.9	36.1
Consumption of home-produced food	22.2	33.0
Consumption of home-produced non-food	1.9	1.7
Other consumer expenditure	28.1	27.0
<i>Of which:</i>		
Gasoline	0.4	0.0
Other fuel	1.2	2.0
Public transportation	1.7	1.3
Cigarettes, tobacco	1.0	1.9
Housing	1.2	1.5
Medical services	1.5	1.7
Education	2.4	2.3
Other expenditure	3.9	2.2

Source: Boateng et al. (1990). Based on 1988 Ghana Living Standards Survey. As reported by Kapur et al.

Finally, even though only a few households reported the consumption of non-alcoholic beverages, the Younger study suggested that it could actually represent a regressive tax. Given the revenue – rather than punitive – significance of this latter tax, the conclusions may be just in line with the equity impact of general consumption taxes such as VAT.

An analysis of the total tax regime to assess its equity or fairness is definitely beyond the scope of this study. However, other conclusions of the Younger study may be relevant in drawing attention to the need to review the entire tax structure in designing a more effective reform strategy. For example, the study found the broad-based taxes to be proportional, but reached the conclusion that income taxes may be progressive in nature (i.e. the effective tax rate is greater on high-income than low-income individuals). It further concludes that given the distortionary nature of the sales tax regime in Ghana, its conversion to VAT is likely to improve the general efficiency of the tax system. It supports the view that the pursuit of vertical equity should be principally assigned to the income tax regime and that the VAT should be geared towards raising revenue. The report also re-echoed the conclusion that the export tax on cocoa is distortionary, regressive and counterproductive to the competitiveness of exports.

Cost of Administration

The characteristics that make excise regimes easy to administer include collection from a few well-structured large firms and easy surveillance by the tax administration. These two features are clearly evident in the Ghanaian context where the collection of virtually all the domestic excise duties is limited to the manufacturing stage. The tax is actually charged on a few large-scale registered enterprises that produce and market the products through well-structured intermediaries at the wholesale stage.⁷ However, this widely accepted paradigm should be set against a number of well-known problems of excise administration in Ghana and many parts of the sub-continent. As noted in previous sections, there is pervasive evasion and avoidance of the duty on imports through smuggling and contraband production of excisable goods. The small and medium-sized firms dominating the non-beer alcoholic sector usually engage in the latter practice. These factors give rise to a lot of resources being devoted to physical surveillance of production and distribution in factories and extensive patrolling of the land and sea borders by the customs officers as part of their preventive duties.

The possibility that the switch to an *ad valorem* basis for collecting excises could make administration more difficult has also not yet been fully assessed. However, interviews conducted among customs officers clearly corroborate the view that it could lead to complications in excise administration. As noted previously, the switch from a *specific* to an *ad valorem* base was implemented in 1989, together with the collection of an equivalent excise duty on imports. The premise that traditional excises are among the simplest taxes to administer rests on the presumption that there is less need for accounts, audits and other sophisticated compliance procedures (Goode, 1984). However, an *ad valorem* tax base involves the calculation of costs and factory or distribution margins which may be more difficult to verify from a firm's financial and accounting values compared with the specific or unit form of assessment. Even though the Ghanaian authorities negotiate the cost and price structure of excisable products with the firms involved, *ad valorem* computations often involve the estimation of retail prices determined from market surveys. Thus, the switch often results in changes being effected to the procedural methods for assessing and verifying excises, invariably resulting in increased administration and compliance costs.

Types and Rates of Excise Taxes

Tables 8 and 9 refer to the current range of excisable products, the revenue generated from each major category and the trends in the rates of tax. The information is provided in more detail in Annex 6. Also figures 6 and 7 show clearly that whereas the *pure* petroleum excise revenue has increased steadily between 1990 and 1995, the traditional excises on alcohol and tobacco have declined. Incidentally, the *non-pure* petroleum excises have also been showing a declining trend. It is important to re-emphasize that though the excise tax is applicable to equivalent imports, the revenue from this latter source is not significant and therefore not explicitly shown as part of the data. They are added to other classifications of import duties in compiling the statistics. Secondly, the switch to *ad valorem* tax rates in 1989 affected the basis for calculating the tax on the non-petroleum products. Prior to this date, the tax was collected on different bases – the retail or distribution price. All firms now charge the tax on a uniform ex-factory value at the factory gate. The relatively high increases in tax rates observed in 1989 reflect a revenue-neutral change in the rate as a result of varying the basis for calculating the tax.

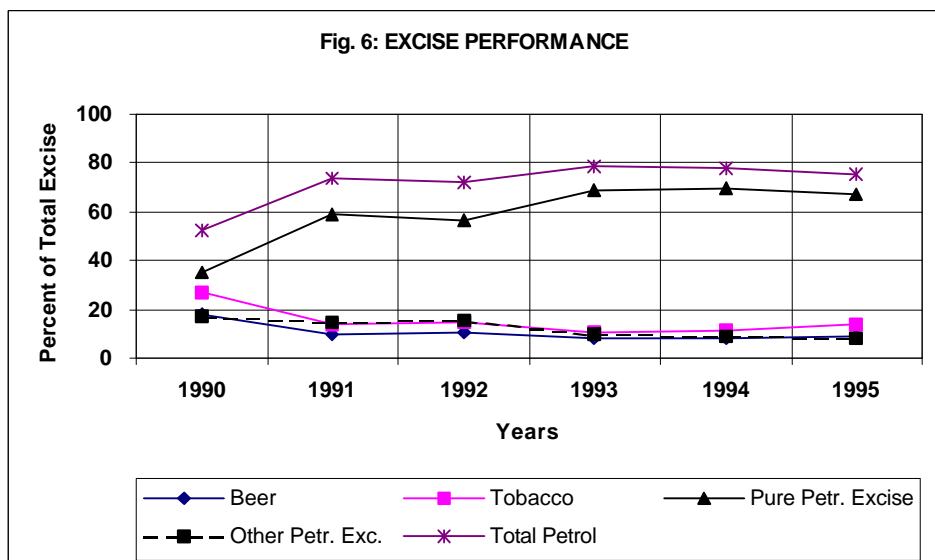
Alcoholic and Non-Alcoholic Beverages

Annex 6 shows that the bulk of the tax from alcoholic and non-alcoholic beverages is imposed on the production and marketing of beer. It further shows that during the review period less than 1 percent of the total excise is derived from the range of other alcoholic drinks classified as “spirits” in Ghana. The excise revenue from pure mineral waters also averaged 1.72 percent of total revenue from 1990 to 1995. On average, the domestic excise duty on beer generated approximately 11 percent of total excise revenue, or, as shown in Annex 6, about 0.4 percent of GDP between 1990 and 1995. However, as table 8 and Figure 6 show, there was a steep decline from a 1990 peak of 18 percent to an average of 9 percent between 1990 and 1995. The decline appears to reflect the relative importance of the contribution from petroleum excise duty for the same period.

Table 6 shows that the rate of excise duty on beer has remained the same at 75.8 percent of the ex-factory price or the customs value of imported equivalents since 1992. The rate was reduced in two steps to the present level from 85.8 percent in 1989 and 80.8 in 1990. The rates of tax on non-alcoholic beverages and spirits have also remained fixed at 50.4 and 25 percent from 1991 to date. The rate for the non-alcoholic malt-based drinks was reduced from 25 percent to 10 percent in 1992 on an infant industry basis. The fiscal benefit was extended to the industry, as it was relatively new to the economy. This is not so clear from other cases where the rate appears to be very low in spite of the need to use excises to correct known negative externalities. For example, it is difficult to find a justification for the lower rates imposed on “spirits”, some of which have obvious health hazards that are more serious than the consumption of beer. A probable explanation is the adverse effects of smuggling and contraband sales, which a high rate of tax might attract. But this would not be a consistent policy considering that other excisable products (e.g. cigarettes) are equally susceptible to this threat.

Table 8***Revenue from Excise Taxes as % of Total Excise Tax Revenue***

	1990	1991	1992	1993	1994	1995
Beer	18.12	9.77	10.86	8.35	8.60	9.38
Tobacco	26.83	14.28	14.45	10.46	11.16	13.71
Pure Petr. Exc.	34.99	58.61	56.82	68.89	69.57	67.26
Other Petrol	17.56	15.10	15.34	10.14	8.62	8.04
<i>Memo item:</i>						
Total Petrol	52.55	73.72	72.17	79.03	78.19	75.30

*Tobacco*

The domestic excise on tobacco is collected on the production and marketing of cigarettes from only two firms in Ghana, the Pioneer and Meridian Tobacco Companies (the latter was formerly called International Tobacco). Table 8 shows that from a peak of approximately 27 per-cent of total excise revenue in 1990, the yield from this source has declined to about 12 percent. Nonetheless, it has remained a constant source of revenue at an average of 0.55 percent of GDP over the review period. Again, the decline in share of total revenue appears to reflect the relative importance of petroleum excise since 1991. A lucrative trade in smuggling the product across the country's borders also seriously affects the revenue from cigarettes.

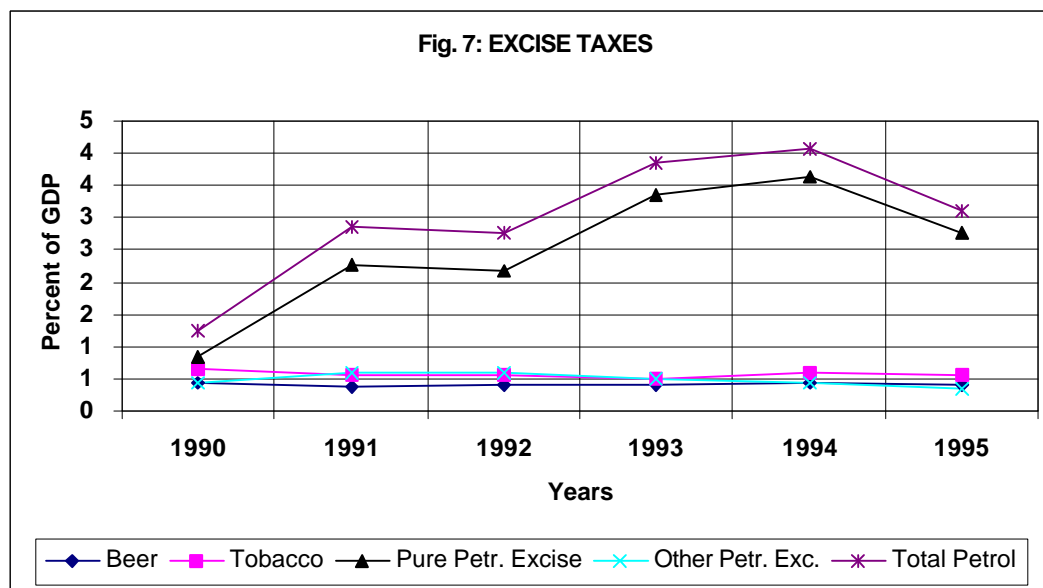
As with alcoholic and non-alcoholic products, Table 6 shows that the rate of tax on tobacco has remained constant at 170.5 percent of ex-factory price or customs value since 1991. The rate was lowered in two steps to the present level from 205 and 200 percent in 1990 and 1991 respectively. There is no doubt that the relatively high rate of the tax is meant to curb the excesses which the consumption of the commodity might give rise to. In other words, the tax on tobacco serves the dual goals of raising revenue and serving as deterrence for the consumption of the product.

Petroleum

The summary shown at the end of Annex 6 shows that the revenue from total non-petroleum excises to GDP has remained constant - slightly above 1 percent - for the period 1990 to 1996. This compares with an average of 2.98 percent for total excise on petroleum products. The trend is however different for the two categories of taxes. The revenue from non-petroleum excise is stable at the average of 1 percent for the period. As noted earlier, however, the revenue from petroleum products has shown an increasing trend since 1991. It has become the single most important commodity tax in the country. Annex 2 shows that the revenue increased from 9.5 percent of total revenue (including grants) in 1990 to 22.3 percent in 1993. However, this has declined to 15.9 and 12.6 percent in 1994 and 1995 respectively. It is significant to note from Annex 6 and Table 9 that petroleum excise alone was approximately 4 percent of GDP in 1993 and 1994 - the benchmark for total excise revenue fixed for this particular study.

Table 9
Excise Taxes as % of GDP

	1990	1991	1992	1993	1994	1995
Beer	0.43	0.38	0.41	0.41	0.45	0.39
Tobacco	0.64	0.55	0.55	0.51	0.58	0.56
Pure Petr. Exc.	0.83	2.27	2.16	3.36	3.63	2.76
Other Petrol	0.42	0.58	0.58	0.50	0.45	0.33
<i>Memo item:</i>						
Total Petrol	1.25	2.85	2.75	3.86	4.07	3.10



The total revenue from petroleum products is derived from pure excise and quasi-excises comprising strategic stock, road, LPG (liquefied petroleum gas) promotional and exploration levies and energy fund. Table 8 shows that currently, the **Pure Petroleum Excise** generates over 60 percent of the revenue from all these categories of petroleum excises. Table 9 indicates that in 1993 and 1994 it raised over 3 percent of the approximately 4 percent of total petroleum excise to

GDP. Thus, the tax serves a principally revenue objective even though the tax has serious implications for protecting the environment. It is derived as the difference between the ex-pump price fixed at the beginning of the fiscal year and the refinery-cum-marketing costs and margins for converting the imported crude into the refined products.

Annex 5 shows that the ex-pump price and taxes on the principal forms of petroleum products - gasoline, kerosene and LPG - have risen steadily since 1989. The tax on premium gasoline has risen twenty-fold over the decade. However, these increases do not appear to have affected the domestic use of the product - increasing steadily from approximately 900,000 to 1.6 million tonnes. The policy of fixing the price at the beginning of the year has, in principle, since 1996 given way to periodic adjustment of the price to take into account the rate of depreciation of the local currency and inflation. The ultimate fiscal goal is to break with this long-standing tradition and allow the open market to determine the price of the product. However, the reality of the political economy of petroleum price adjustment has meant that mid-term adjustments in prices have only been made on three occasions since 1996. The implication of full de-regulation of excise revenue is obvious: the amount of tax collected per ex-pump price will cease to be uniform throughout the year.

The **LPG Promotional Levy** is relatively insignificant and is collected to promote the use of liquefied petroleum gas. Annex 6 (summary) shows that the amount raised from this tax was on average less than 1 percent of the total excise revenue between 1990 and 1995. This is an environmentally friendly tax policy aimed at using the tax to subsidize the usage of gas and the acquisition of cylinders to stem the fast destruction of the forests through the use of fuel-wood. The **Road Fund Levy** is the largest component apart from the pure excise duty and is channeled into the rehabilitation of roads and is managed by the Ministry responsible for roads. It is in essence a user charge for vehicular use of the roads, generating on average 8.6 percent of total excise revenue between 1990 and 1995. It is, however, less than 0.5 percent of GDP. The tax is specifically earmarked for the construction and maintenance of roads. The **Strategic Stock Levy** is used to construct storage facilities to improve the supply and distribution of petroleum products across the country. It is about 2.1 percent of total excise revenue or less than 1 percent of GDP. The **Energy Fund** (0.3 percent of total excise) is used to administer aspects of the petroleum sector whereas the **Exploration Levy** (0.04 percent of total excise) is used to fund that activity in the country. The strategic stock, energy and exploration levies are all earmarked for the purposes specified above.

Other Excises

As noted, an equalizing **excise duty on imports** was introduced in 1989 on commodities attracting domestic excise duty. They are included in the customs tariff as special taxes. This tax has yielded very little revenue for the reasons given previously, and especially as a result of the high rate of smuggling across the country's borders due to high tax rates.

For the period under review, a variety of other levies have been imposed that can be classified as **quasi-excises**. In 1990, the government introduced a special tax regime ranging from 75 to 500 percent. The **Super Sales Tax** as it was known was imposed on a special range of luxury items.

Considering that most of these items (e.g. caviar) could only be imported, the regime resembles a special import levy. The high rates resulted in extreme distortion of the rate structure at a time when the tariff regime was being rationalized. It also resulted in widespread evasion and consequently a low revenue yield. The taxes were therefore phased out after only three years of implementation.

A **Purchase Tax** of 10 percent was imposed on the importation of motor vehicles until 1995. It was imposed in addition to the sales tax, import duty and special tax (for luxury cars only) on non-exempt motor cars and vehicles. The tax was abolished in 1995 as part of the measures taken to streamline the tariff regime prior to the first attempt to introduce VAT that year. However, a Special Tax on motor vehicles is imposed on motor cars, including cross-country/estate cars, of a cylinder capacity exceeding 2500 cubic centimeters (cc's) and on certain specially designed cars. Another regime of **Special Taxes** was introduced in 1995 after the elimination of the multiple rates under the aborted VAT regime. It was calculated as the difference between the luxury rate of Sales Tax of 35 percent and the VAT rate of 17.5 percent. After the cancellation of VAT in 1995, the sales tax was restored at a single rate of 15 percent alongside the special tax regime of 17.5 percent. It is applied to the CIF and to the duty-inclusive value of imports or the ex-factory price, if any, of locally-produced luxury products.

SIGNIFICANT TRENDS IN EXCISE POLICY

Under this section, the major policy decisions taken on the structure of excises in the country will be reiterated. The expectations of the policies at the time they were introduced and the extent to which they have been realized or maintained over the years will also be examined. Some of these points have already been discussed in previous sections but are consolidated for easier assessment of policy trends since the launching of the recent tax reforms in the 1980s. The changes made to the structure of excise administration during the review period are discussed in paragraph 3.4.

Neutral Imposition of Excises

The initiative to levy a neutral excise regime took two forms – the introduction of an import excise regime and the application of uniform rates on imports and domestic production. Until 1989, there was no explicit excise duty on imports; the importation of excisable goods such as tobacco and certain alcoholic beverages attracted luxury and special rates of import duty or sales tax. The equivalent import excises were therefore introduced to simplify the tax regime and rationalize the objectives of the individual tax instruments. In principle, the same rate of excise was applied to domestic production and imports. This principle was also extended to the other distortionary quasi-excises such as the super sales tax discussed in the earlier paragraph.

Equal rates of tax were also introduced on excisable imports and domestic supply to improve the efficiency of the tax regime. Previously, luxury rates of import duties (including sales taxes) were applied as quasi-excises. But since these were not restricted to only excisable products, they bore no direct relationship with the domestic excise duty rates. Hence, the luxury taxes distorted the relationship between the domestic and imported excisable products. In some cases where the luxury rate on imports fell below the domestic excise rates, the outcome was implicit negative

protection for local industries. This situation was worsened by the high rate of smuggling of imported excisable products into the country to evade import duties.

The measures taken between 1989 to 1991 to rectify the situation, however, remain incomplete. First, the luxury rates of excise duty are still classified as a special tax because the CEPS Management Law relating to the definition of excises is yet to be amended. Secondly, the effect of correcting the anomaly remains nominal because of the high incidence of smuggling. Finally, the base for computing the excise duty is not entirely uniform even though some significant steps have been taken in this direction already, as discussed in the next paragraph.

Unifying the Base for Computing Excise Duties

Another neutral policy introduced during the period of reforms was the adoption of *two* uniform bases for calculating the tax on excisable goods. Currently, the taxable value for imposing the import excise on all products is the sum of cost, insurance and freight (CIF) plus the import duty paid on the taxable commodity. On the other hand, all domestic excise duties are based on the ex-factory price (manufacturer's sale price) of the commodities. Though these uniform bases of calculation simplify and clarify the calculation of excises, they leave a major flaw in the imposition of excises since base for imports and domestic supplies still differ. The only way to unify the base is to calculate the tax based on retail prices. It also suggests that even though excises are considered high in Ghana, the actual rates as a percentage of the retail value of excisable products are in reality much lower.

Switch to Ad Valorem Rates

As noted in previous sections, the measures taken during the late 1980's involved changing the *specific* or unit basis of calculating excises to an *ad valorem* regime. However, traces of the specific duty regime existed until 1996 in the form of special taxes levied on a given number of products as countervailing tax. These non-core duties were eliminated due to difficulties in getting importing countries to perform the calculations needed to obtain uniform comparative figures. The switch from specific taxes coincided with the relatively high rates of inflation experienced during the 1970's and early 1980's. The policy was therefore in line with the general recommendation to SSA countries to adopt *ad valorem* rates to protect the real value of excises and other government revenues (Shome, 1995). Previous excise duties were based on units of measurement and resulted in a lack of automatic adjustment in the value of excisable commodities for tax purposes. As portrayed in various studies, the decline in real revenue to the state could be rapid during high inflationary periods, as was the case of Ghana in the periods cited above.

The switch to *ad valorem* rates during the 1980s also took care of the concern that under the specific basis the wide price differences among products make for a very regressive distribution of the duty between the cheaper brands and the more expensive ones (Glenday, 1996). However, Ghana's excise regime does not appear to correct this specific anomaly completely because, as noted already, some very hard and expensive liquor on the market does actually attract lower rates of excises. Though this view appears to be generally accepted, Muten (1996), for example, dissents. He argues that given the very low price of the cheapest liquor, an *ad valorem* duty

sufficient to fulfill the social and medical objective of reducing consumption of hard liquor would have to be set at a high level, and one that would unnecessarily price quality alcohol out of the market.

Revenue Significance of Petroleum Excises

As noted already, petroleum excises have emerged as the single most important commodity tax in terms of revenue generation since 1991. The restructuring of this tax during the structural adjustment period contributed significantly to reducing the fiscal deficit that would have weighed heavily on the adjustment process in Ghana (Leechor, 1991). Moreover, the revenue from petroleum filled the void that could have been created by the decline in cocoa revenue during this period. For example, Annex 1 and Table 3 show that whilst the revenue from cocoa declined from 3.6 percent of GDP to 0.68 percent between 1987 and 1992, petroleum excises rose from 0.67 to 3.80 percent over the same period. It is also pertinent to note that the revenue from the traditional non-petroleum excises during this period also fell from 2.2 percent of GDP in 1985 to 0.99 percent in 1993.

The debate on the economic and social justification for imposing the high rates of petroleum excises in Ghana is very emotional. There is widespread perception that increases in the price of the product adversely affect the cost of living of poor people because of their impact on transportation costs and food prices. As noted, however, Younger (1993) and others have established that petroleum taxation – apart from kerosene – is proportional or even progressive in some instances and need not fall disproportionately on the poor, contrary to the popular view. There is another view that the price of fuel in Ghana should have been pegged downwards to reflect the falling market price of crude during the peak of the adjustment period in order to provide relief from the social effects of the program.

This argument tends to completely ignore the merits of using the tax to minimize the negative externalities associated with the use of the product and the benefit principle implied in road usage. The debate also appears to overlook the efficiency of taxing the product by virtue of its inelastic demand. Finally, the fortuitous character of this tax is similarly overlooked, coming in at the time of rapid decline in the revenue generated from cocoa exports. The attempt to expand the tax base at the time was not successful because of difficulty in widening the general consumption tax base. In this regard, the petroleum revenue is an expedient policy measure that accounts for the lack of seriousness in devising effective alternative mechanisms such as the invoice-credit method VAT to broaden the tax base.

Curtailling the Waiver of Taxes

In principle, Section 55 of PNDC Law 330 defines the scope of excise duty very broadly. As noted already, it states that excise duty is payable on all locally manufactured or produced goods, unless the goods are exempt from the duty. However, the implication that excises may be defined and administered in the mode of a general consumption tax is not adopted by CEPS. There is no explicit exemption schedule for excises under the law except for the traditional exclusions such as exports and goods shipped as stores for consumption outside Ghana via ship or aircraft.

Nonetheless, in practice the collection of the tax is limited to refined petroleum products, the breweries and the processing of non-alcoholic beverages and tobacco. In this regard, excise taxation is not plagued by excessive exemptions except in the area of vehicle importation. Nevertheless, this is a significant waiver in terms of the traditional definition of the coverage of the tax.

PNDC Law 330 defines the taxes to be imposed on vehicles to include purchase tax (defined in this research as quasi-excise), import duty and sales tax. It does not specifically mention excise duty. The liberal treatment given to the importation of vehicles and cars into the country is an important legacy of the measures taken to improve the economy and mitigate the social cost of adjustment in the 1980s. The schedule of tax rates on vehicles has remained almost the same since the early 1980s. The tax policy virtually waives all taxes on the importation of vehicles with low engine capacities. This means that one of the commodities targeted for this study – vehicles – is virtually excluded from excise taxation. Although this may be another reason for retaining the high rates of taxes on petroleum products, the policy needs to be rationalized to distinguish between the direct taxation of vehicles and the levy imposed in lieu of road usage. There are, however, corrective or punitive sales and special tax rates on vehicles with engine capacities above 1800 cc's in addition to graduated penalties for all vehicles whose age exceeds five years from the date of manufacture. The penalties on second-hand vehicles are meant to discourage the importation of derelict vehicles into the country.

EXCISE ADMINISTRATION

This section is devoted to discussing the administration of excises in Ghana. It focuses on the legal framework, organization structure, procedures and documentation required for ensuring easy administration of and compliance with the tax.

Organization Structure

Customs, Excise and Preventive Service (CEPS) currently collect all excise duties in Ghana. The Service itself was created in 1986 together with the IRS to enhance the administration of taxes in the country. The essence of removing them from the core of the Civil Service administration is to improve the conditions of work and employment for these institutions in order to improve professionalism in the collection of taxes. The policy has not changed even though the gap between the remuneration of revenue officers and other public servants have been narrowed because of recent public sector rationalization programs and the general lack of resources. However, it can be argued that any benefits arising from the autonomy granted to the revenue institutions extends to the administration of excises under CEPS.

The sales tax and excise functions are currently combined and administered as a separate department from the customs and preventive units. However, the officials responsible for collecting tariffs and sales tax at the land, sea and air entry points are generally responsible for collecting the import excise when assessed. The departmental distinction notwithstanding, every official of CEPS is in principle trained to be a customs as well as excise officer. Hence, officials of the Service can be easily transferred to perform their functions across tax types.

At the time the abortive attempt was made to introduce VAT in 1995, further steps were taken that would have changed the administration of excise duties in the country. For example, the collection of *domestic* excises was temporarily placed under the newly formed VAT Service, whereas CEPS continued to collect the VAT and Excise duty on imports (in addition to other import duties). The move was, however, reversed when the VAT law was repealed. This structure is currently included in the Bill placed before Parliament for the re-introduction of VAT in 1998. The Budget for 1997 also proposes to restructure the operations of the National Revenue Secretariat into a full Revenue Board along the lines of the improved structure being implemented in Uganda, Zambia, Kenya and Tanzania. It is expected that the Board will be an apex supervisory body to coordinate the activities of IRS, CEPS and the proposed VAT Service.

Excise Procedures

Under this section, the registration, assessment, collection and enforcement, examination and audit, as well as investigation procedures within CEPS will be discussed in detail. The procedures to be discussed will include the physical as well as fiduciary arrangements for controlling excisable commodities (i.e. the location of officers within factories and the posting of bonds).

As noted, CEPS is required to **register** all firms eligible to collect the excise duty under PNDC Law 330.⁸ This provision is subject to the Commissioner being satisfied that the dealer maintains records in such a form as the Service thinks fit. Indeed, no person is allowed to manufacture or commence to manufacture goods, or to distill or rectify alcohol unless he first obtains a license – renewable annually - from CEPS.⁹ Upon submitting the application Customs Form E10, manufacturers are issued with an Excise License before the commencement of production. The application form describes the sites and premises to be used for production, plus drawings or diagrams of the plant to be used and the process involved in the manufacturing.

The manufacturer **self-assesses** the tax due at the end of each month and pays the liability due to the Service within ten (10) days of the close of each month. The Commissioner may, however, defer payment of the duty on such terms as may be allowed as long as security by way of bond is provided by the taxpayer. The duty itself becomes due either when delivery of goods is made from the factory (or warehouse as the case may be) or before they are used by the manufacturer. Goods used for office work, demonstration purposes or as samples are also subject to the tax.¹⁰

The taxpayer files a **tax return** within the ten (10) day period specified in the preceding paragraph in a form prescribed by the Commissioner. The return is expected to account in detail for a) all materials in or received into the factory b) all excisable goods manufactured, delivered, used, removed to or from another factory or to or from a warehouse, lost by evaporation, leakage or other cause or otherwise disposed of and c) any duties which have become due or have been paid during that month or other prescribed period on any goods manufactured. The tax return includes a declaration that all the particulars contained in it are true.¹¹ The law makes provision for adjustment in value of the duty in the event the goods are destroyed or lost before delivery, or before removal and shipment for exportation. The Commissioner may remit the amount involved on satisfaction that the correct returns have previously been filed.¹²

The **examination** of filed returns is conducted under the auspices of the Operations Department of CEPS, with the staff maintaining a **physical presence** in some large factories whilst the other taxpayers are placed under close surveillance by zonal officers. The resident and zonal officers check the use of inputs, production and releases of final goods from the factory premises. In addition, the Field Audit Unit conducts **audit and verification** checks as may be required. The Service also has an Investigation Unit that conducts specially designed **investigations** into the affairs of importers and manufacturers. In performing these functions, customs and excise officers may enter and inspect business premises or the residence of any manufacturer, producer, retailer or wholesaler. Whilst on the premises, any books or other documents kept there may be examined.¹³ The staff of CEPS usually conducts their examinations and audits in accordance with the generally accepted auditing and accounting standards. The proprietor is obliged to furnish such information and accounting records – including an external auditor’s report - as the officials of CEPS may require, subject to appropriate sanctions being applied in the event of a failure to comply.¹⁴

The Commissioner of CEPS may require any warehouse keeper to enter into a bond to secure the duties on any goods that may be placed in such warehouses.¹⁵ Entrepreneurs are then allowed to move their goods from the factory to the **bonded warehouse** without having to immediately pay the duty involved. The use of bonding facilities is widespread as a means of easing the liquidity of firms. The Commissioner is given powers to issue regulations regarding sanctions, the maintenance and supervision of the warehouse, and revocation of the license to operate a bonded warehouse. A certificate issued by the manufacturer or owner of the warehouse must cover the goods when they are removed.

Offences, Penalties and Appeals Procedures

Part IV of the CEPS Management Law deals with specific offences and penalties relating to Excise Duty and Sales Tax. The main offences and penalties include:¹⁶

- a) failure to submit returns on the due date warrants a penalty of 15 percent of the amount due for the month;
- b) failure to pay the tax due on the due date warrants a penalty of 15 percent of the amount due plus interest at the prevailing commercial bank rate;
- c) the making of false and deceptive returns warrants a penalty of 100 percent of the amount of duty involved.

The Commissioner is vested with powers to withdraw the certificate of the taxpayer as a manufacturer or warehouse keeper in cases where he is satisfied that the latter does not keep and maintain proper records, or when the amount of tax and penalties remains unpaid for an unreasonable period of time. He may also impose sanctions in cases where goods are illegally removed from a bonded warehouse.¹⁷ Other powers include access to business premises, attendance at production sites and other forms of inspection.

The CEPS Management Law entrusts the initial resolution of conflicts between officers and taxpayers with the Commissioner. This may be done with regard to registration, mode of conducting business, determination of value for tax purposes and the classification of commodities. However, those who may be further aggrieved by a decision taken by the Commissioner may lodge a formal appeal with the tax courts within twenty-one (21) days of becoming aware of the decision. In the absence of any such appeal within the stipulated period, the decision of the Commissioner shall be final. The law makes any court action conditional on the payment of the amount of tax assessed.¹⁸

Taxpayer Services

CEPS has a Public Affairs Department that is responsible for a number of services geared generally or specifically for taxpayers and members of the general public and related to the various categories of taxes it administers. Their responsibility for evolving an effective taxpayer service programme is not restricted to excise administration. Currently, the services rendered include periodical notification of changes affecting taxpayers through direct communication and the use of the print and electronic media to convey these messages. The Service prints instructions and advertising materials on various aspects of indirect tax administration for the benefit of taxpayers and members of the general public. As noted previously, the number of firms charging excise duty is limited. Therefore, there are seldom problems with getting information on excise procedures to these taxpayers.

CONCLUSION

This analysis concludes with an assessment of some possible steps that should be taken to improve the policy as well as administration of excises in the country. It also reviews some non-revenue considerations regarding the imposition of excises in Ghana. Given the principle underlying some of the reforms highlighted in previous sections, Ghana's excise tax regime should have been performing at a better level than that which is depicted in the tables. This suggests that in practice, the effective implementation of some of these procedures appears stalled by the lack of progress in translating some objectives into reality.

It is necessary to draw a close link between the stagnation and decline in non-petroleum excise taxation and Ghana's narrow base and lack of improvement in the general consumption taxes such as the sales and service tax regime. The narrow base of the general consumption tax regime hampers the checking of excise malpractice such as smuggling and contraband marketing. It is possible to enhance control of the excise regime by moving the collection and examination of records relating to domestic indirect taxes to the retail stage. As stated previously, the sales tax and excise duty are both collected at the manufacturing stage and at country borders. This implies that once excisable products escape taxation at the borders or factory gate, there is virtually no mechanism for trailing them since the occasional physical swoops on the open market to check contraband and smuggled goods are not adequate to check this malpractice. Hence, one desirable change in policy is the gradual shift of the domestic indirect tax regime to the distribution point.

It would appear that the current high rates of excise duty encourage evasion and avoidance through smuggling and contraband production. This factor is also a potential source of corruption within the tax administration. Excise rates in Ghana are high relative to the level imposed in neighboring countries in the sub-region. Therefore, goods destined for the Ghanaian market are usually landed in these countries and smuggled across the borders into the country. Even though the reduction in rates could bridge the competition between imports and domestic production by removing the main attraction for smuggling, this measure appears to await a widening of the general consumption tax base. Without this relatively more viable initiative, there is uncertainty as to whether the excise revenue lost from reducing the rates could be easily made up from the reduction in the level of smuggling.

It will be important to review PNDC Law 330 to improve on the definition of excises to cover imported goods. Currently, the definition covers only locally manufactured goods.¹⁹ As noted, the lack of precision has resulted in the classification of the import excise rates as special taxes. It is also necessary to include certain categories of services that can be subject to excise taxation in the definition. In addition, the review should cover the possibility of imposing excise rates on luxury products. A review of the legal definition of excise along these lines could prevent the complexity in administration and compliance that arises from the inclusion of many special tax regimes in the customs tariff.

Finally, though a full assessment of the macroeconomic impact of excises on the economy is beyond the scope of this paper, it is necessary to draw attention to the tendency to associate reviews of the prices of excisable products to the general price level in Ghana. The expectation is that the general price level will increase whenever changes occur in the rates of tax or prices of excisable products. This is anachronistic of the period of pervasive control regimes when the government determined the prices of many products, including excisable products like tobacco and beer. Indeed, the retail price of gas (premium) and diesel is still controlled by the government, whereas until recently those of beer and tobacco were often negotiated with the large firms that produce these products. In a sense, the practice continues since the production-cum-marketing costs and margins are predetermined for tax purposes. Invariably, this negotiated price falls below what consumers actually pay on the open market for the product. It is convenient because by collecting the tax from the few firms at the factory gate, the resources of the excise administration are not burdened with having to monitor points of distribution as well.

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ENDNOTES

¹ Nevertheless, this average represented a significant share of total revenue – 23.6 percent of total revenue, including grants. This is largely due to the revenue effort at the time being very low. The tax/GDP ratio for the five years prior to 1986 averaged only 6.0 percent, compared with a Sub-Saharan African (SSA) average of 17.9 percent.

² Customs, Excise and Preventive Service (Management) Law, 1993 (PNDC Law 330) – s55.

³ Some of the issues are discussed in an earlier paper by the author of this study [TNI]

⁴ Income Tax Decree, 1973 (SMC Decree 5) and Ghana Investment Promotion Centre Act, 1994 (Act 478)

⁵ The scope of the service tax regime was extended to cover management, financial, accounting, legal, architectural, surveying, insurance, engineering, courier, satellite and mobile phone services.

⁶ Ghana has no major vehicle assembly plant and so all vehicles are imported into the country.

⁷ For example, only two large factories produce cigarette products whereas there are four breweries producing beer. By comparison, however, many small and medium scale firms do the production of other alcoholic drinks..

⁸ Section 66.

⁹ Section 212.

¹⁰ Section 57(1-3) (Further details that may be required on the return are specified in Section 64 of the law).

¹¹ Section 57(3).

¹² Section 58.

¹³ Section 69.

¹⁴ Section 220.

¹⁵ Sections 201 to 206.

¹⁶ Section 70 to 77.

¹⁷ Section 209.

¹⁸ Sections 67 and 68.

¹⁹ Section 55.